

LJM2 APPROVAL SHEET

This Approval Sheet should be used to approve Enron's participation in any transactions involving LJM Cayman, L.P. ("LJM1") or LJM Co-Investment, L.P. ("LJM2"). LJM1 and LJM2 will collectively be referred to as "LJM". This Approval Sheet is in addition to (not in lieu of) any other Enron approvals that may be required.

GENERAL

Deal name: Campaign 2K

Date Approval Sheet completed: December 5, 2000

Enron person completing this form: Nicole Alvino

Expected closing date: December 7, 2000

Business Unit: Enron Corp.

Business Unit Originator: Dan Boyle

This transaction relates to ☐ LJM1 and/or ☒ LJM2.

This transaction is ☐ a sale by Enron ☐ a purchase by Enron ☐ a co-sale with Enron ☐ a co-purchase with Enron and/or ☒ other: monetization structure

Person(s) negotiating for Enron: Dan Boyle

Person(s) negotiating for LJM: Kathy Lynn

Legal counsel for Enron: Vinson & Elkins

Legal counsel for LJM: Kirkland & Ellis

DEAL DESCRIPTION

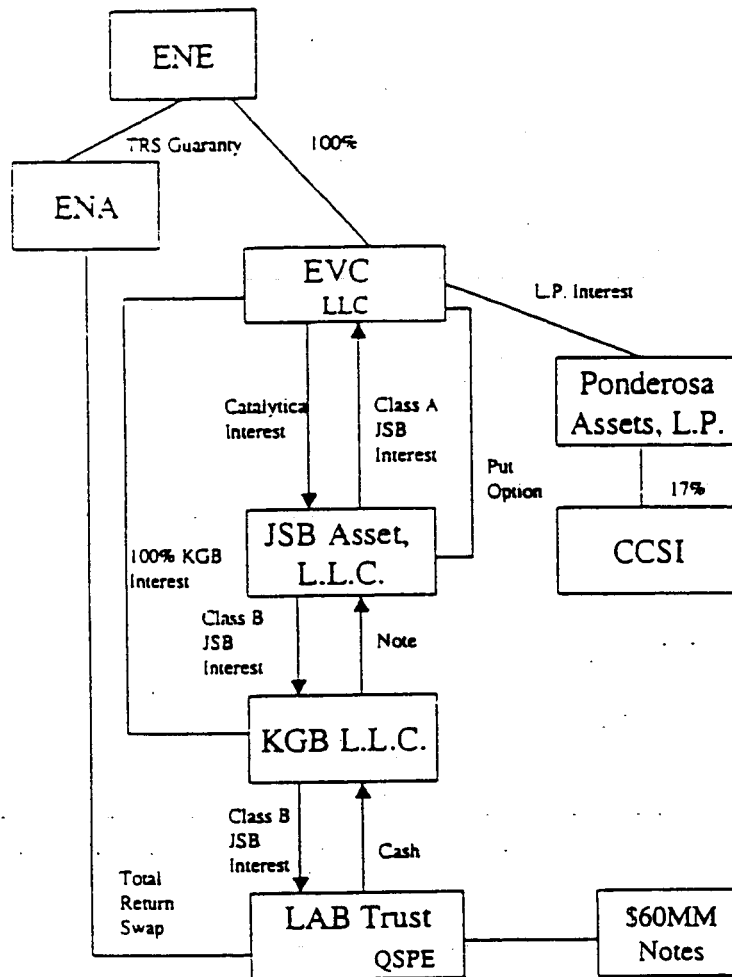
Enron monetized its asset position in Catalytica and Avici in two identical FASB 125 deals. LJM provided a total of \$2.9MM equity and Barclays provided \$92.5MM debt. Enron received cash and funds flow from the transaction.

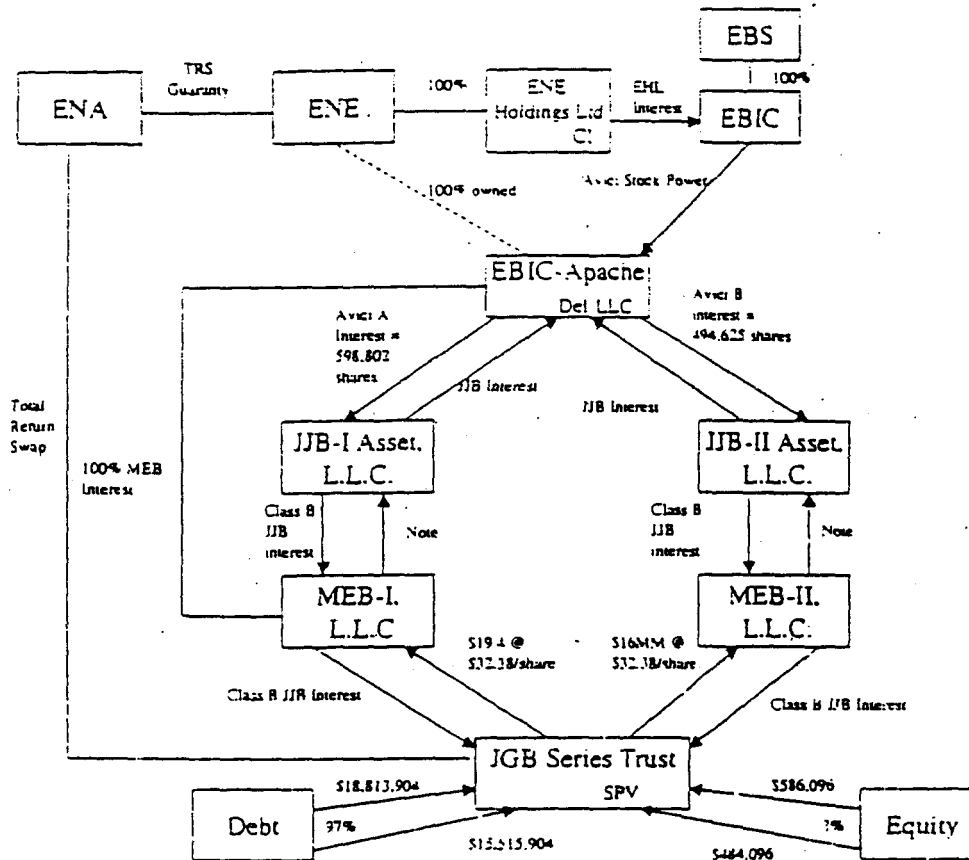
TRANSACTION SUMMARY

Catalytica Transaction Steps (The steps are identical for the Avici structure)

Purchase 100% of the equity in LAB Trust, the special purpose vehicle in the FASB 125 structured monetization of Enron's interest in Catalytica Energy Services Inc. ("CESI"). Enron owns approximately 17% of CESI and values it at \$60 million. The FASB 125 structure is as follows:

- The Catalytica stake is transferred to JSB Asset, LLC ("Asset LLC")
- Asset LLC issues an economic interest in itself to KGB, LLC ("Transferor LLC")
- Asset LLC issues a voting interest (controlling disposition, voting, etc. of the Catalytica stake) back to EVC, LLC (a wholly-owned Enron entity)
- Transferor LLC issues the economic interest in Asset LLC to LAB Trust in exchange for cash (funded 97% debt, 3% equity)
- LAB Trust enters into a total return swap with ENA (guaranteed by Enron) to cover principal and interest on the LAB Trust debt
- At maturity, an auction is held to dispose of the economic interest in Asset LLC. Proceeds from the auction are used to repay the trust debt and equity
- The auction proceeds are distributed to the debt (with the total return swap supplementing any shortfalls in interest or principal repayment) and then any remainder to the equity (until the equity has received its 15% dividends)
- Enron retains the right to repurchase the equity (at par plus accrued dividends) and therefore retains upside beyond a 15% return to the equity





ECONOMICS

The Trust in the FASB 125 structure issued Notes at L+75bps and Certificates at an annualized rate of 15% which mature on June 11, 2002. ENA provided a Total Return Swap on the Notes. Interest will be paid and Libor will be reset monthly to allow maximum flexibility to the business units to unwind the monetizations as the assets are sold to other 3rd parties.

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ISSUES CHECKLIST

1 Sale Options

- a. If this transaction is a sale of an asset by Enron, which of the following options were considered and rejected.
☒ Condor ☐ JEDI II ☒ Third Party ☒ Direct Sale. Please explain: No other transaction could be closed in a timely enough manner to meet the targeted corporate objectives.
- b. Will this transaction be the most beneficial alternative to Enron? ☒ Yes ☐ No. If no, please explain: _____
- c. Were any other bids/offers received in connection with this transaction? ☐ Yes ☒ No. Please explain: Time constraint precluded ENE from actively seeking other bids

2. Prior Obligations

- a. Does this transaction involve a Qualified Investment (as defined in the JEDI II partnership agreement)? ☐ Yes ☒ No. If yes, please explain how this issue was resolved: _____
- b. Was this transaction required to be offered to any other Enron affiliate or other party pursuant to a contractual or other obligation? ☐ Yes ☒ No. If yes, please explain: _____





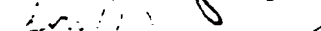
3. Terms of Transaction

- a. What are the benefits (financial and otherwise) to Enron in this transaction? ☒ Cash flow ☐ Earnings
☒ Other: Funds Flow
- b. Was this transaction done strictly on an arm's-length basis? ☒ Yes ☐ No. If no, please explain: _____
- c. Was Enron advised by any third party that this transaction was not fair, from a financial perspective, to Enron?
☐ Yes ☒ No. If yes, please explain: _____
- d. Are all LJM expenses and out-of-pocket costs (including legal fees) being paid by LJM? ☐ Yes ☒ No. If no, is this market standard or has the economic impact of paying any expenses and out-of-pocket costs been considered when responding to items 1.b. and 3.b. above? ☒ Yes ☐ No.

4 Compliance

- a. Will this transaction require disclosure as a Certain Transaction in Enron's proxy statement? ☒ Yes ☐ No.
- b. Will this transaction result in any compensation (as defined by the proxy rules) being paid to any Enron employee?
☐ Yes ☒ No.
- c. Have all Enron employees' involvement in this transaction on behalf of LJM been waived by Enron's Office of the Chairman in accordance with Enron's Conduct of Business Affairs Policy? ☒ Yes ☐ No. If no, please explain: _____
- d. Was this transaction reviewed and approved by Enron's Chief Accounting Officer? ☒ Yes ☐ No.
- e. Was this transaction reviewed and approved by Enron's Chief Risk Officer? ☒ Yes ☐ No.
- f. Has the Audit Committee of the Enron Corp. Board of Directors reviewed all Enron/LJM transactions within the past twelve months? ☐ Yes ☒ No. (The Audit Committee has not held a meeting since LJM2's formation.) Have all recommendations of the Audit Committee relating to Enron/LJM transactions been taken into account in this transaction? ☐ Yes ☒ No.

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APPROVALS	Name	Signature	Date
Business Unit	Ben Glisan		1-25-01
Business Unit Legal			
Enron Corp. Legal	Rex Rogers		
Global Finance Legal	Jordan Mintz		1-25-01
RAC	Rick Buv <i>Dr 24</i>		
Accounting	Rick Causey		
Executive	Jeff Skilling		